

**PRESENTATION  
TO  
THE HON'BLE COMMISSION  
ON  
DRAFT TARIFF REGULATION 2019-24**

**TORRENT POWER LIMITED**

**1<sup>ST</sup> FEBRUARY 2019**

- The role and efforts of Hon'ble Commission in development of stable and predictable regulatory framework of Power sector of India is inspiring.
- Generation is an important infrastructure investment and needs stability of policy and regulatory framework
- Stable policy framework helps in securing other commitments i.e. debt financing, transmission and fuel supply, short term financing etc.
- Cost of service approach provides much needed protection to the beneficiaries from market vagaries (prevalent till 2012-13 and recently observed)
- However, generating assets are most stressed assets due to various structural issues.
- In view of the above, we humbly request the Hon'ble Commission to continue with the tariff approach adopted till date and seek a permission to present our major submission on the Draft Tariff Regulations 2019-24

# INTRODUCTION

## **MAJOR SUBMISSION POINTS - GENERATION**

- O&M Expenses
  - Heat Rate
  - Working Capital
  - Recovery of FC & Incentive
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# O&M EXPENSES

# O&M EXPENSES FOR BASE YEAR

## SUBMISSION

- Request the Hon'ble Commission to allow Rs. 32 Lacs per MW (i.e. O&M expenses at normative level plus Rs. 2-3 Lacs per MW for obsolesce of parts / technology upgradation)

## RATIONALES

- **Operating level is expected to be at Normative**
- **Fixed nature of major cost components**
  - Fixed & Co-terminus nature of LTSA/LTMA Contract
  - Fixed Employee expenses necessary for plant availability
  - Fixed General & Admin expenses
- **Obsolesce of imported parts / technology up gradation**
  - Operating life of gas based power plant has been revised from 15 years to 25 years
  - OEM indicated Rs. 60 Cr for up gradation of DCS system and stopped support for BOP

# ESCALATION IN O&M EXPENSES

## SUBMISSION

- Request the Hon'ble Commission to allow approx. 7% (balanced) escalation

## RATIONALES

- **Primarily consist of employee expenses, repair and maintenance expenses and admin & general expenses.**
- **Employees expenses cannot just increase by 3.2% (but expected to increase minimum by 9-10% )**
  - A report of known consultancy firm on India's Annual Compensation Trends survey 2018-19
- **O&M service and supply contract (even if the ARC is placed) increase by 10% on year on year basis.**
- **Exchange rate increased by ~6.50% in last year**
- **Increase of cost of Petro/Diesel (which is also major sub cost/cost driver in Admin & General expenses)**

**HEAT RATE**

# HEAT RATE

## SUBMISSION

- Request the Hon'ble Commission to specify heat rate of SUGEN under Regulations 59(C)(c)

## RATIONALES

- **Regulations 59(C)(c) applies for generating station achieved COD after 01.04.2009**
- **SUGEN plant is commissioned on 15.08.2009**



# **WORKING CAPITAL**

# RECEIVABLES

## SUBMISSION

- Request the Hon'ble Commission to allow 60 day of receivables

## RATIONALES

- **7 to 10 days to prepare & publish REA/SEA (for the previous month)**  
( Time required to compile and reconcile all transactions by RLDC/SLDC )
  - **2 to 3 days to raise the invoice**  
( •Time required to verify the SEA/REA (including time to resolve any discrepancy )  
• Time required to settle fuel supply allocation and receipt of the invoice )
  - **70 days of existing cycle i.e. 10 days to raise the invoice & 60 days of payment period**
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# **RECOVERY OF FC & INCENTIVE**

# RECOVERY OF FC

## SUBMISSION

- Request the Hon'ble Commission to allow recovery of capacity charges on cumulative annual basis

## RATIONALES

- **Ensures sufficient cash flow for meeting fixed expenses like debt and O&M expenses**
  - Payment to be made whether the plant is in operation/under maintenance
- **Proposed formula (i.e. peak and off peak segregation) too complex in terms of calculation and data handling.**
  - Generator still can declare lower availability in peak hours without compromising the recovery of FC
- **What about the situation of multiple beneficiaries having their own peak and off peak period.**
- **What about the situation of beneficiaries having substantial renewable generation**
  - Such states require availability throughout the day

# INCENTIVE

## SUBMISSION

- Request the Hon'ble Commission to allow incentive based on PAF

## RATIONALES

- **Lower requisitions does not reflect poor performance**
  - Performance parameter to be under the control of station personnel
  - Station dispatch depends upon many factors
  - Incentive on PAF basis worked out after careful consideration in 2009-14
- **Availability linked incentive serves better the current need of beneficiaries & the grid**
  - Variability of renewable generation to be compensated by very high availability
  - PAF based incentive improved power supply/availability with greater emphasis on continuity and quality
- **Equitable approach for Disincentive & Incentive and Regulatory certainty for large investment**
  - Balanced approach to link dis-incentive and incentive on same principle
  - Large investment decisions need regulatory certainty

- Request the Hon'ble Commission to;
  - allow **Rs. 32 Lacs per MW** O&M expenses for base year with **7% escalation** in subsequent years
  - consider **Heat Rate of SUGEN under the Regulations 59(C)(c) i.e. Design Heat Rate + 5%**
  - allow **60 days of Receivables** in working capital
  - allow recovery of Fixed Cost on **annual cumulative basis** (without peak and off peak differentiation)
  - allow **PAF based incentive**

## SUMMARY

## **MAJOR SUBMISSION POINTS - TRANSMISSION**

- Non Tariff Income – Regulation 72 (h)
  - Sharing of Gains
  - O&M Expenses
  - Tariff determined as ceiling tariff
  - ROE – Add Cap
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**NON TARIFF  
INCOME -  
REGULATION 72 (H)**



# NON TARIFF INCOME – REGULATION 72 (H)

## SUBMISSION

- Request the Hon'ble Commission to remove the proposed regulation regarding sharing of income from **'interest on investments and bank balances'**

## RATIONALES

- **Better performing utilities are already sharing gains with the beneficiaries.**
  - **Cash flow management is internal matter of the entity**
  - **Generating companies have been exempted from sharing returns earned on income earned as RoE.**
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# **SHARING OF GAINS**

# SHARING OF GAINS

## SUBMISSION

- Request the Hon'ble Commission **to allow sharing of gain and loss** in the ratio of 50:50 **or** to **continue existing** provision of sharing of gains in the ratio of 60:40

## RATIONALES

- **50-50 ratio of only gains puts the developers at disadvantage**
- **Mid-way changes (through the life of the project) have already impacted financials of the project.**

# O&M EXPENSES

# O&M EXPENSES

## SUBMISSION

- Request the Hon'ble Commission to allow higher O&M expenses for line; Escalation rate of 7%; and reimbursement for GST.

## RATIONALES

- **Each transmission licensee has different characteristics and size of the asset.**
- **Give due consideration to such additional expenses while determining O&M expenses.**
- **Proposed escalation of 3.2% is not sufficient to meet with the as actual Y-O-Y increase in Employee Expenses, R&M Expenses and A&G Expenses is substantially higher.**
- **Transmission licensee is required to pay O&M charges at CERC approved rate towards the maintenance of bays installed at PGCIL substation with GST of 18%.**

**TARIFF  
DETERMINED AS  
CEILING TARIFF**

# TARIFF DETERMINED AS CEILING TARIFF

## SUBMISSION

- Request the Hon'ble Commission to remove proposed at Regulation 76

## RATIONALES

- **Tariff decided by the existing tariff regulations is actually bottom**
  - **Direct contraventions to provisions of the EA, 2003.**
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**ROE - ADD CAP**



# ROE – ADD CAP

## SUBMISSION

- Request the Hon'ble Commission to allow additional cap at Rate of RoE

## RATIONALES

- **Add Cap is subjected to prudence check**
  - **Developer would be required to fund majority of the add cap through equity.**
  - **Lenders may increase the rates of lending for additional lending.**
  - **Payment of Undischarged liabilities may take time due to dispute/ any other reason.**
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- Request the Hon'ble Commission to;
- remove the proposed Regulation 72(h) from Non Tariff Income
- allow sharing of gain and loss in the ratio of 50:50 or to continue existing provision of sharing of gains in the ratio of 60:40
- allow higher O&M expenses for line and specify escalation rate of 7%
- remove proposed Regulation 76 w.r.t. ceiling tariff for Transmission
- allow additional cap at Rate of RoE - Regulation 30(2)

## SUMMARY

**THANK YOU**

